

SPENCER COUNTY BOARD OF EDUCATION

BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS

Year ended June 30, 2003

SPENCER COUNTY BOARD OF EDUCATION

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Spencer County Board of Education
Taylorsville, Kentucky

We have audited the accompanying basic financial statements of the Spencer County Board of Education as of June 30, 2003 and for the year then ended, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards and the standards generally accepted in the United States of America applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the provisions of Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract - General Audit Requirements, Appendix II of the Independent Auditor's Contract - State Audit Requirements, and Appendix III of the Independent Auditor's Contract - Electronic Submission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note B to the basic financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of July 1, 2002. This results in a change in the format and content of the basic financial statements.

In our opinion, the basic financial statements present fairly, in all material respects, the financial position of the District as of June 30, 2003 and the results of its operations and the cash flows of its business type activities for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated August 28, 2003, on our consideration of Spencer County Board of Education's internal control structure and a report dated August 28, 2003, on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information shown on pages 36 through 44 is presented for the purpose of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards on page 45 through is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The Management's Discussion and Analysis and Budgetary Comparison Information on pages 3 through 7 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Louisville, Kentucky
August 28, 2003

SPENCER COUNTY PUBLIC SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Year ended June 30, 2003

As management of the Spencer County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the District was \$1.9 million.
- No funds of the District have a deficit fund balance. However, the General Fund, Special Revenue Fund, SEEK Capital Outlay Fund and the Food Service Fund all had operations that resulted in a current year deficit of revenues over expenditures resulting in reductions of fund balance in the amounts of \$400,292, \$3,937, \$3,812 and \$45,367, respectively.
- Previous to the fiscal year 2003, the board maintained a rotation of the bus fleet by budgeting for bus purchases. In anticipation of reductions in State Funding, the board chose not to purchase buses during the fiscal year 2003. The board will enter into a KISTA bus lease agreement in fiscal year 2004 in order to resume the rotation of the bus fleet.
- House bill 269 permitted the use of Capital Outlay funds to pay for property insurance premiums for fiscal year 2003 with approval from the Kentucky Department of Education. The board approved the use of Capital Outlay funds in the amount of \$28,577 to pay for the District's property insurance premiums
- The District continues to experience rapid growth. The District grew 25.6% in enrollments since fiscal year 1998. The growth rate experienced in fiscal year 2003 was considerably lower at 0.5%. Projections, however, recognize additional growth of 27% by fiscal year ending 2008.
- Following the amendment of the District's long-range plans for facilities, there is a focus on investing in plant management, with the age and size of our facilities reflective of this need.
- The Board initiated a major construction project during fiscal year 2003. The Board approved the facilities plan for a new middle school designed to house 800 student, grades 6-8, with an estimated completion cost of \$12.5 million. Renovations of the current middle school to a second elementary site and renovations/addition to the current high school are in the discussion phase, with expectations of action being taken during fiscal year 2004, pending the passage of a 5.9 cent building fund levy.
- No bonds were issued in fiscal year 2003. However, board action was taken in fiscal year 2003 initiating the refinancing process in order to refund and retire the bond issue dated February 1, 1994. The new issue in the amount of \$830,000 is dated July 2, 2003.
- As authorized by the General Assembly in the Biennial Budget (HB269), the Board approved an equalized growth nickel of 5.9 cents during the fiscal year 2003.
- Due to the decline of interest rates and fiscal year deficit spending, interest income fell \$34,000; that is a 40.7% decrease.

Continued

SPENCER COUNTY PUBLIC SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)--CONTINUED

Year ended June 30, 2003

- The District anticipates flat to falling revenue during fiscal year 2004. In addition, the cost to provide services to the increasing student population continues to exceed the revenue derived from the new residential tax base and assessments. The District has no industrial tax base.
- The District remains committed to student achievement with a focus on professional development. A concerted effort to reduce purchasing in areas other than classroom instruction and professional development is reflective in the fiscal year 2004 budget.
- The General Fund revenue was \$9.7 million, which primarily consisted of the state program (SEEK), property, motor vehicle and utility taxes. Excluding inter-fund transfers, General Fund expenditures were \$10 million.
- Bonds are issued as the District constructs or renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District's total debt decreased by \$917,000 during the current fiscal year.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 8 and 9 of this report.

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SPENCER COUNTY PUBLIC SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)--CONTINUED

Year ended June 30, 2003

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our food service operations. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 10 through 13 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 through 35 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$1.9 million as of June 30, 2003.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Assets for the period ending June 30, 2003

The current year's financial statements are dramatically different from past years as a result of implementing GASB 34. Attempting to compare this year's data with last year would be misleading to the reader however the district looks forward to offering comparative data in the future.

Current Assets	\$ 2,213,940
Noncurrent Assets	10,778,324
Total Assets	<u><u>\$ 12,992,264</u></u>
Current Liabilities	\$ 1,265,774
Noncurrent Liabilities	9,819,837
Total Liabilities	<u><u>\$ 11,085,611</u></u>
Net Assets:	
Investment in Capital Assets (Net of Accumulated Depreciation)	\$ 10,778,324
Restricted	(10,440,294)
Unreserved Fund Balance	1,568,623
Total Net Assets	<u><u>\$ 1,906,653</u></u>

Continued

SPENCER COUNTY PUBLIC SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)--CONTINUED

Year ended June 30, 2003

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

The district implemented GASB 34 and recorded fixed assets and debt for the first time.

Comments on Budget Comparisons

- The District's total governmental revenues for the fiscal year ended June 30, 2003, net of Interfund transfers, were \$13.5 million.
- General fund budget compared to actual revenue varied from line item to line item with the ending actual balance being \$63,000 more than budget or approximately two-thirds of a percentage point.
- The total cost of all programs and services was \$12 million net of debt service.
- General fund budget expenditures to actual varied significantly reflecting surplus in District administrative support (\$437,000), transportation (\$106,000), instruction (\$83,875) and plant operations (\$25,000). This resulted from:
 - 1) budgeted contingency of \$446,073, less increased expenditures of \$9,073.
 - 2) the Board's mid-year decision not to purchase buses, originally budgeted \$138,000 less increased costs of additional personnel.
 - 3) middle school operations, positions unfilled and reduction in substitute sick pay compared to historical data \$83,875.
 - 4) reduction of central office repairs compared to historical data \$25,000.

The following table presents a summary of revenue and expense for the General Fund and the Special Revenue fund for the fiscal year ended June 30, 2003.

	<u>Amount</u>
Revenues:	
Local revenue sources	\$ 3,267,092
State revenue sources	8,993,032
Federal Revenue	1,064,693
Investments	49,636
Other Sources	126,783
Total revenues	<u>\$ 13,501,236</u>
Expenses:	
Instruction	\$ 7,870,072
Student Support Services	579,080
Instructional Support	357,874
District Administration	641,478
School Administration	606,262
Business Support	121,847
Plant Operations	955,627
Student Transportation	933,516
Central Office Support	131,505
Facilities Acquisition	65,845
Community Support	97,480
Other	1,353,923
Total expenses	<u>\$ 13,714,509</u>
Expense in Excess of Revenue	<u>\$ (213,273)*</u>

*The Board authorized expenditures of prior year reserve to address instructional needs.

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SPENCER COUNTY PUBLIC SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)--CONTINUED

Year ended June 30, 2003

General Fund Revenue

The majority of revenue was derived from state funding (70%) with local tax revenue making up 27% of total revenue.

Budget Allocation

Site Based Decision Making Councils expended 61% of the general fund budget, the majority of the Non-SBDM funds (12%) was spent serving children with special needs. The remaining 27% was expended for central support services (8%), transportation (9%) and plant operations (10%).

School Allocation

Regular Instruction accounts for 82% of the school level expenditures.

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, (i.e. some federal) operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2.0% contingency. The district adopted a budget with \$446,000 in contingency (3%). The beginning cash balance for beginning fiscal year 2004 is \$806,000. With the state funding cuts and the contingency at a 5-year low, the Board has taken significant action that impacts the finances, such as reduction in central office personnel, as well as school personnel, staggering of bus schedules to reduce the number of buses in the fleet and establishing a high school textbook rental fee for all students, with the exception of free and reduced.

In April 2003, the Board approved a \$12.5 million Spencer County Middle School construction project.

The Board proposed a tax referendum in May 2002 and again in November 2002, to fund the Spencer County Middle School construction project as well as the proposed renovations of the current middle school to an elementary school and the proposed addition/renovation of the Spencer County High School. Both referendums were defeated.

In April 2003, the Board approved the growth nickel levy authorized by the General Assembly in their Biennial Budget (HB269). With this levy, the Board will be able to complete the middle school project.

Questions regarding this report should be directed to the Superintendent or to Vicki Goodlett, Directory of Financial Services, (502) 477-3250, or by mail at Spencer County Public Schools, 207 West Main Street, Taylorsville, KY 40071.

SPENCER COUNTY BOARD OF EDUCATION

STATEMENT OF NET ASSETS

June 30, 2003

ASSETS	Governmental Activities	Business- Type Activities	Total
Current Assets			
Cash and cash equivalents	\$ 1,787,711	\$ 72,590	\$ 1,860,301
Inventory	-	16,293	16,293
Accounts receivable:			
Taxes – current	56,756	-	56,756
Taxes – delinquent	7,582	-	7,582
Intergovernmental – State	4,798	-	4,798
Intergovernmental – Indirect Federal	228,441	-	228,441
Other	9,456	30,210	39,666
Interest receivable	103	-	103
Total current assets	2,094,847	119,093	2,213,940
Non-current Assets			
Capital assets	15,384,861	338,507	15,723,368
Less: accumulated depreciation	<u>4,765,636</u>	<u>179,408</u>	<u>4,945,044</u>
Total non-current assets	10,619,225	159,099	10,778,324
Total assets	\$ 12,714,072	\$ 278,192	\$ 12,992,264
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 126,830	\$ 4,731	\$ 131,561
Accrued payroll and related expenses	219,386	-	219,386
Current portion of bond obligations	665,000	-	665,000
Current portion of capital leases	4,481	-	4,481
Current portion of accrued sick leave	92,826	-	92,826
Interest payable	<u>152,520</u>	<u>-</u>	<u>152,520</u>
Total current liabilities	1,261,043	4,731	1,265,774
Non-current Liabilities			
Non-current portion of bond obligations	9,655,000	-	9,655,000
Non-current portion of accrued sick leave	<u>164,837</u>	<u>-</u>	<u>164,837</u>
Total non-current liabilities	9,819,837	-	9,819,837
Total liabilities	11,080,880	4,731	11,085,611
Net Assets			
Invested in capital assets, net of related debt	10,619,225	159,099	10,778,324
Restricted for:			
Capital projects	-	-	-
Debt service	(10,472,520)	-	(10,472,520)
Other purposes (nonexpendable)	32,226	-	32,226
Unrestricted	<u>1,454,261</u>	<u>114,362</u>	<u>1,568,623</u>
Total net assets	1,633,192	273,461	1,906,653
Total liabilities and net assets	\$ 12,714,072	\$ 278,192	\$ 12,992,264

See independent auditor's report and accompanying notes to basic financial statements

SPENCER COUNTY BOARD OF EDUCATION

STATEMENT OF ACTIVITIES

Year Ended June 30, 2003

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities							
Instruction	\$ 7,792,228	\$ -	\$ 2,205,097	\$ -	\$ (5,587,131)	\$ -	\$ (5,587,131)
Support services:							
Student	579,080	-	-	-	(579,080)	-	(579,080)
Instruction staff	358,373	-	-	-	(358,373)	-	(358,373)
District administrative	643,647	-	-	-	(643,647)	-	(643,647)
School administrative	606,262	-	-	-	(606,262)	-	(606,262)
Business	121,847	-	-	-	(121,847)	-	(121,847)
Plant operation and maintenance	957,432	-	-	-	(957,432)	-	(957,432)
Student transportation	1,012,424	-	-	-	(1,012,424)	-	(1,012,424)
Central office	131,505	-	-	-	(131,505)	-	(131,505)
Facilities acquisition and construction	65,845	-	-	1,019,658	953,813	-	953,813
Community service activities	97,480	-	-	-	(97,480)	-	(97,480)
Interest on long-term debt	702,159	-	-	-	(702,159)	-	(702,159)
On-behalf payments unallocated	950,299	-	950,299	-	-	-	-
Total governmental activities	14,018,581	-	3,155,396	1,019,658	(9,843,527)	-	(9,843,527)
Business-Type Activities							
Food service and summer feeding	903,709	531,501	324,862	-	-	(47,346)	(47,346)
Total business-type activities	903,709	531,501	324,862	-	-	(47,346)	(47,346)
Total primary government	<u>\$ 14,922,290</u>	<u>\$ 531,501</u>	<u>\$ 3,480,258</u>	<u>\$ 1,019,658</u>	(9,843,527)	(47,346)	(9,890,873)
General Revenues							
Taxes:							
Property taxes					\$ 2,413,109	\$ -	\$ 2,413,109
Motor vehicle taxes					443,579	-	443,579
Utility taxes					410,404	-	410,404
Investment earnings					49,636	1,979	51,615
State and formula grants					6,832,947	-	6,832,947
Loss compensation					8,063	-	8,063
Miscellaneous					118,743	-	118,743
					<u>10,276,481</u>	<u>1,979</u>	<u>10,278,460</u>
Change in net assets					432,954	(45,367)	387,587
Net assets, beginning of year (as originally stated)					1,935,962	145,586	2,081,548
Prior period adjustment:							
GASB 34					(761,666)	173,242	(588,424)
Other					25,942	-	25,942
Net assets, end of year					<u>\$ 1,633,192</u>	<u>\$ 273,461</u>	<u>\$ 1,906,653</u>

See independent auditor's report and accompanying
notes to basic financial statements

SPENCER COUNTY BOARD OF EDUCATION

BALANCE SHEET--GOVERNMENTAL FUNDS

June 30, 2003

	General Fund	Special Revenue	Other Governmental Funds	Total Governmental Funds
ASSETS AND RESOURCES				
Cash and cash equivalents	\$ 806,117	\$ 42,500	\$ 939,094	\$ 1,787,711
Accounts receivable				
Taxes – current	56,756	-	-	56,756
Taxes – delinquent	7,582	-	-	7,582
Intergovernmental – State	-	4,798	-	4,798
Intergovernmental – Indirect Federal	-	228,441	-	228,441
Other	9,456	-	-	9,456
Interest receivable	103	-	-	103
Total assets and resources	<u>\$ 880,014</u>	<u>\$ 275,739</u>	<u>\$ 939,094</u>	<u>\$ 2,094,847</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 51,639	\$ 75,160	\$ 31	\$ 126,830
Accrued payroll and related expenses	18,807	200,579	-	219,386
Total liabilities	<u>70,446</u>	<u>275,739</u>	<u>31</u>	<u>346,216</u>
Fund Balances				
Reserved for:				
Encumbrances	-	-	203,370	203,370
Accrued sick leave	91,000	-	-	91,000
Unreserved:				
Undesignated, reported in:				
General fund	718,568	-	-	718,568
Capital projects funds	-	-	669,650	669,650
Debt service	-	-	66,043	66,043
Total fund balances	<u>809,568</u>	<u>-</u>	<u>939,063</u>	<u>1,748,631</u>
Total liabilities and fund balances	<u>\$ 880,014</u>	<u>\$ 275,739</u>	<u>\$ 939,094</u>	<u>\$ 2,094,847</u>

See independent auditor's report and accompanying
notes to basic financial statements

SPENCER COUNTY BOARD OF EDUCATION

**RECONCILIATION OF THE BALANCE SHEET--GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS**

June 30, 2003

Total fund balance per governmental fund balance sheet	\$ 1,748,631
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Amounts reported for governmental activities in the statement of net
assets are different because:

Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	10,619,225
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Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.	<u>(10,734,664)</u>
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Net assets for governmental activities	<u>\$ 1,633,192</u>
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SPENCER COUNTY BOARD OF EDUCATION

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES--GOVERNMENTAL FUNDS

Year ended June 30, 2003

	General Fund	Special Revenue	Other Governmental Funds	Total Governmental Funds
Revenues				
From local sources:				
Taxes:				
Property	\$ 1,793,477	\$ -	\$ 619,632	\$ 2,413,109
Motor vehicle	443,579	-	-	443,579
Utilities	410,404	-	-	410,404
Earnings on investments	49,625	-	11	49,636
Other local revenues	117,981	739	-	118,720
Intergovernmental – state	6,832,947	1,140,427	1,019,658	8,993,032
Intergovernmental – indirect federal	-	1,063,931	-	1,063,931
Intergovernmental – direct federal	762	-	-	762
Loss compensation	8,063	-	-	8,063
Total revenues	<u>9,656,838</u>	<u>2,205,097</u>	<u>1,639,301</u>	<u>13,501,236</u>
Expenditures				
Instruction	6,238,170	1,631,902	-	7,870,072
Support services:				
Student	278,902	300,178	-	579,080
Instruction staff	223,086	134,788	-	357,874
District administrative	641,478	-	-	641,478
School administrative	597,803	8,459	-	606,262
Business	121,847	-	-	121,847
Plant operation and maintenance	927,050	-	28,577	955,627
Student transportation	847,289	86,227	-	933,516
Central office	131,505	-	-	131,505
Facilities acquisition and construction	-	-	65,845	65,845
Community service activities	-	97,480	-	97,480
Other	-	-	1,353,923	1,353,923
Total expenditures	<u>10,007,130</u>	<u>2,259,034</u>	<u>1,448,345</u>	<u>13,714,509</u>
(Deficit) Excess of Revenues Over Expenditures	<u>(350,292)</u>	<u>(53,937)</u>	<u>190,956</u>	<u>(213,273)</u>
Other Financing (Uses) Sources				
Operating transfers in	-	50,000	622,055	672,055
Operating transfers out	(50,000)	-	(622,055)	(672,055)
Total other financing (uses) sources	<u>(50,000)</u>	<u>50,000</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>(400,292)</u>	<u>(3,937)</u>	<u>190,956</u>	<u>(213,273)</u>
Fund balances, beginning of year, as originally stated	1,209,860	3,937	722,165	1,935,962
Prior period adjustment	-	-	25,942	25,942
Fund balances, end of year	<u>\$ 809,568</u>	<u>\$ -</u>	<u>\$ 939,063</u>	<u>\$ 1,748,631</u>

See independent auditor's report and accompanying
notes to basic financial statements

SPENCER COUNTY BOARD OF EDUCATION

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES--GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year ended June 30, 2003

Net change in total fund balances governmental funds	\$ (213,273)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.	(390,643)
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	651,764
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	<u>385,106</u>
Change in net assets of governmental activities	<u>\$ 432,954</u>

SPENCER COUNTY BOARD OF EDUCATION

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-- BUDGETARY COMPARISON SCHEDULE--GENERAL FUND

Year ended June 30, 2003

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Revenues				
From local sources				
Taxes				
Property	\$ 1,748,509	\$ 1,748,509	\$ 1,793,477	\$ 44,968
Motor vehicle	408,960	408,960	443,579	34,619
Utilities	370,000	370,000	410,404	40,404
Earnings on investments	75,000	75,000	49,625	(25,375)
Other local revenues	80,933	80,933	117,981	37,048
Intergovernmental – state	6,909,446	6,909,446	6,832,947	(76,499)
Intergovernmental – direct federal	673	673	762	89
Loss compensation	-	-	8,063	8,063
Total revenues	9,593,521	9,593,521	9,656,838	63,317
Expenditures				
Instruction	6,322,045	6,322,045	6,238,170	83,875
Support services:				
Student	283,158	283,158	278,902	4,256
Instruction staff	224,116	224,116	223,086	1,030
District administrative	1,078,595	1,078,595	641,478	437,117
School administrative	591,825	591,825	597,803	(5,978)
Business	125,109	125,109	121,847	3,262
Plant operation and maintenance	952,176	952,176	927,050	25,126
Student transportation	953,275	953,275	847,289	105,986
Central office	132,080	132,080	131,505	575
Total expenditures	10,662,379	10,662,379	10,007,130	655,249
Excess (Deficit) of Revenues Over Expenditures	(1,068,858)	(1,068,858)	(350,292)	718,566
Other Financing Sources (Uses)				
Operating transfers in	-	-	-	-
Operating transfers out	(50,000)	(50,000)	(50,000)	-
Total other financing sources (uses)	(50,000)	(50,000)	(50,000)	-
Net change in fund balance	(1,118,858)	(1,118,858)	(400,292)	718,566
Fund balances, beginning of year	1,118,858	(1,118,858)	1,209,860	91,002
Fund balances, end of year	\$ -	\$ -	\$ 809,568	\$ 809,568

See independent auditor's report and accompanying
notes to basic financial statements

SPENCER COUNTY BOARD OF EDUCATION

STATEMENT OF NET ASSETS--PROPRIETARY FUND

Year ended June 30, 2003

	<u>Food Service Fund</u>
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 72,590
Inventory	16,293
Accounts receivable	<u>30,210</u>
Total current assets	119,093
Non-current Assets	
Capital assets	338,507
Less: accumulated depreciation	<u>179,408</u>
Total non-current assets	<u>159,099</u>
Total assets	<u><u>\$ 278,192</u></u>
 LIABILITIES	
Current Liabilities	
Accounts payable	\$ 4,731
Net Assets	
Invested in capital assets, net of related debt	159,099
Unrestricted	<u>114,362</u>
Total net assets	<u>273,461</u>
Total liabilities and net assets	<u><u>\$ 278,192</u></u>

See independent auditor's report and accompanying
notes to basic financial statements

SPENCER COUNTY BOARD OF EDUCATION

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS--PROPRIETARY FUND

Year ended June 30, 2003

	<u>Food Service Fund</u>
Operating Revenues:	
Lunchroom sales	\$ 531,501
Operating Expenses:	
Salaries and wages	367,592
Materials and supplies	456,457
Depreciation	21,188
Other operating expenses	<u>58,472</u>
Total operating expenses	<u>903,709</u>
Operating loss	(372,208)
Non-Operating Revenues:	
Federal grants	312,476
State grants	12,386
Interest income	<u>1,979</u>
Total non-operating revenues	<u>326,841</u>
Net loss	(45,367)
Total net assets, beginning of year	145,586
Prior period adjustment	<u>173,242</u>
Total net assets, end of year	<u>\$ 273,461</u>

See independent auditor's report and accompanying
notes to basic financial statements

SPENCER COUNTY BOARD OF EDUCATION

STATEMENT OF CASH FLOWS--PROPRIETARY FUND

Year ended June 30, 2003

Cash Flows from Operating Activities

Cash received from:

Lunchroom sales

\$ 531,502

Government grants

319,868

Cash paid to/for:

Employees

(367,592)

Supplies

(451,726)

Other activities

(58,473)

Net cash used by operating activities

(26,421)

Cash Flows from Capital and Related Financing Activities

Purchases of capital assets

(7,045)

Cash Flows from Investing Activities

Receipt of interest income

1,979

Net decrease in cash and cash equivalents

(31,487)

Balances, beginning of year

104,077

Balances, end of year

\$ 72,590

Reconciliation of operating loss to net cash used by operating activities

Operating loss

\$ (45,367)

**Adjustments to reconcile operating income to net cash used
by operating activities**

Depreciation

21,188

Interest

(1,979)

Change in assets and liabilities

Receivables

(4,994)

Accounts payable

4,731

Net cash used by operating activities

\$ (26,421)

See independent auditor's report and accompanying
notes to basic financial statements

SPENCER COUNTY BOARD OF EDUCATION

STATEMENT OF FIDUCIARY NET ASSETS--FIDUCIARY FUND

June 30, 2003

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	\$ 300,216
Accounts receivable	3,240
Investments	<u>68,745</u>
Total assets	<u><u>\$ 372,201</u></u>
 Liabilities	
Accounts payable	\$ 7,892
Due to student groups	<u>364,309</u>
Total liabilities	<u><u>\$ 372,201</u></u>

See independent auditor's report and accompanying
notes to basic financial statements

SPENCER COUNTY BOARD OF EDUCATION

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE--
FIDUCIARY NET ASSETS**

Year ended June 30, 2003

	<u>Agency Fund</u>
Revenues From Student Activities	\$ 694,756
Non-instructional Expenses	<u>636,141</u>
Excess of Revenues Over Expenditures	58,615
Fund Balance, Beginning of Year	<u>305,694</u>
Fund Balance, End of Year	<u>\$ 364,309</u>

See independent auditor's report and accompanying
notes to basic financial statements

SPENCER COUNTY BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2003

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Spencer County School District ("Board"), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Spencer County School District ("District"). The Board receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Spencer County School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The general-purpose financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the general-purpose financial statements of the following organization are included in the accompanying general-purpose financial statements:

Spencer County School District Finance Corporation – The Spencer County School District resolved to and authorized the establishment of the Spencer County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors.

Basis of Presentation

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Continued

SPENCER COUNTY BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS--CONTINUED

June 30, 2003

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on page 40. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).

Continued

SPENCER COUNTY BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS--CONTINUED

June 30, 2003

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the district's facility plan.
 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan.
 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- (D) The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Fund Types (Enterprise Fund)

- (A) The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

The District applies all Governmental Accounting Standards Board (GASB) pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

- (A) The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Continued

SPENCER COUNTY BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS--CONTINUED

June 30, 2003

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

Continued

SPENCER COUNTY BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS--CONTINUED

June 30, 2003

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

The property tax rates assessed for the year ended June 30, 2003, to finance the General Fund operations were \$.453 per \$100 valuation for real property, \$.515 per \$100 valuation for business personal property and \$.560 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

Continued

SPENCER COUNTY BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS--CONTINUED

June 30, 2003

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Accumulated Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. At June 30, 2003, this amount totaled \$257,663 for those certified employees with 27 or more years of experience.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Budgetary Process

Budgetary Basis of Accounting – The District's budgetary process accounts for certain transactions on a basis other than Accounting Principles Generally Accepted in the United States (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Continued

SPENCER COUNTY BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS--CONTINUED

June 30, 2003

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

Cash and Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2003 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Inventories

On government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories and fixed assets.

Continued

SPENCER COUNTY BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS--CONTINUED

June 30, 2003

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B--CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

For the fiscal year ended June 30, 2002, the District implemented GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions". Effective July 1, 2003, the District has implemented GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments".

GASB 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the District's programs between business-type and governmental activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2002, caused by the conversion to the accrual basis of accounting.

The School District made a change in accounting principle during the year. For governmental activities, they began accounting for technology fund revenues in the special revenue fund. This change brought the District's funds into compliance with the fund classifications and requirements of GASB 34.

Continued

SPENCER COUNTY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2003

NOTE B--CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE-- CONTINUED

Restatement of Fund Balance – The restatement for the above changes and the transition from governmental fund balance to net assets of governmental activities is presented below:

	<u>General</u>	<u>Special Revenue</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balance June 30, 2002	\$ 1,209,860	\$ -	\$ 726,102	\$ 1,935,962
Close out technology fund	<u>-</u>	<u>3,937</u>	<u>(3,937)</u>	<u>-</u>
Adjusted Fund Balance, June 30, 2002	<u>\$ 1,209,860</u>	<u>\$ 3,937</u>	<u>\$ 722,165</u>	1,935,962
GASB 34 Adjustments:				
Capital Assets – Net of Depreciation				11,009,868
Long-Term Liabilities				(10,978,147)
Accumulated sick leave				(629,103)
Long-term investments				-
Accrued interest payable				<u>(164,284)</u>
GASB 34 adjustments				<u>(761,666)</u>
Governmental Activities Net Assets, June 30, 2002				<u>\$ 1,174,296</u>

The District reclassified several funds from proprietary to government funds based upon fund classifications presented in GASB 34. The District also had a fixed asset inventory taken to comply with GASB 34. This inventory revealed the existence of proprietary fixed assets that have not previously been recorded on the books. Changes as a result of the GASB 34 implementation are as follows:

	<u>Food Service</u>
Fund Balance, June 30, 2002	\$ 145,586
Additional fixed assets	<u>173,242</u>
Adjusted Fund Balance, June 30, 2002	<u>\$ 318,828</u>

As proprietary funds are already on the accrual basis, no adjustments are necessary for the Statement of Net Assets.

SPENCER COUNTY BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS--CONTINUED

June 30, 2003

NOTE C--ESTIMATES

The preparation of combined general-purpose financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose combined general-purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE D--CASH AND EQUIVALENTS

At June 30, 2003, the carrying amount of the District's total cash and cash equivalents was \$2,134,575. Of the total cash balance, \$100,000 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Cash and cash equivalents at June 30, 2003 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Peoples Bank	\$ 2,870,647	\$ 2,160,517

Breakdown per financial statements:

Governmental funds	\$ 1,787,711
Proprietary funds	72,590
Agency funds	<u>300,216</u>
	<u>\$ 2,160,517</u>

NOTE E--CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

<u>Governmental Activities</u>	<u>Balance July 1, 2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2003</u>
Land	\$ 284,063	\$ 32,320	\$ -	\$ 316,383
Buildings and improvements	12,460,793	7,064	-	12,467,857
Technology equipment	952,858	44,872	-	997,730
Rolling stock	21,240	-	-	21,240
Audio-visual equipment	41,505	5,161	-	46,666
Other	53,387	-	-	53,387
Vehicles	<u>1,479,598</u>	<u>2,000</u>	<u>-</u>	<u>1,481,598</u>
Totals at historical cost	<u>15,293,444</u>	<u>91,417</u>	<u>-</u>	<u>15,384,861</u>

Continued

SPENCER COUNTY BOARD OF EDUCATION**NOTES TO THE BASIC FINANCIAL STATEMENTS--CONTINUED**

June 30, 2003

NOTE E--CAPITAL ASSETS--CONTINUED

<u>Governmental Activities</u>	<u>Balance July 1, 2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2003</u>
Less: accumulated depreciation				
Buildings and improvements	2,742,565	248,281	-	2,990,846
Technology equipment	597,441	134,059	-	731,500
Rolling stock	14,805	726	-	15,531
Audio-visual equipment	9,708	2,913	-	12,621
Other	34,314	3,507	-	37,821
Vehicles	<u>884,743</u>	<u>92,574</u>	<u>-</u>	<u>977,317</u>
Total accumulated depreciation	<u>4,283,576</u>	<u>482,060</u>	<u>-</u>	<u>4,765,636</u>
Governmental Activities Capital Assets – Net	<u>\$11,009,868</u>	<u>\$ (390,643)</u>	<u>\$ -</u>	<u>\$ 10,619,225</u>
<u>Business-Type Activities</u>				
Food service and equipment	\$ 312,090	\$ 1,735	\$ -	\$ 313,825
Technology equipment	<u>19,372</u>	<u>5,310</u>	<u>-</u>	<u>24,682</u>
Totals at historical cost	<u>331,462</u>	<u>7,045</u>	<u>-</u>	<u>338,507</u>
Less: accumulated depreciation				
Food service equipment	141,230	19,737	-	160,967
Technology equipment	<u>16,990</u>	<u>1,451</u>	<u>-</u>	<u>18,441</u>
Total accumulated depreciation	<u>158,220</u>	<u>21,188</u>	<u>-</u>	<u>179,408</u>
Business-Type Activities Capital Assets-Net	<u>\$ 173,242</u>	<u>\$ (14,143)</u>	<u>\$ -</u>	<u>\$ 159,099</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE F--BONDED DEBT AND LEASE OBLIGATIONS

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Interest Rates</u>
1998	\$ 9,105,000	4.40% - 4.50%
1996	\$ 855,000	4.00% - 5.00%
1994	\$ 1,085,000	3.00% - 5.25%
1991	\$ 3,925,000	5.20% - 6.50%

Continued

SPENCER COUNTY BOARD OF EDUCATION

NOTES TO THE BASIC FINANCIAL STATEMENTS--CONTINUED

June 30, 2003

NOTE F--BONDED DEBT AND LEASE OBLIGATIONS--CONTINUED

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Spencer County Fiscal Court to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2003 for debt service (principal and interest) are as follows:

Fiscal Year	Spencer County School District		Kentucky School Facility Construction Commission		Total
	Principal	Interest	Principal	Interest	
2003-04	\$ 286,241	\$ 194,755	\$ 378,759	\$ 142,787	\$ 1,002,542
2004-05	301,296	317,751	178,704	121,679	919,430
2005-06	313,305	304,362	186,695	113,688	918,050
2006-07	329,891	290,407	195,109	105,273	920,680
2007-08	346,025	275,557	203,975	96,408	921,965
2008-09	346,556	260,011	208,444	87,139	902,150
2009-10	373,019	244,267	181,981	77,528	876,795
2010-11	392,888	227,146	182,112	68,987	871,133
2011-12	407,986	209,105	182,014	60,393	859,498
2012-13	428,295	190,354	186,705	51,783	857,137
2013-14	448,143	170,641	196,857	42,909	858,550
2014-15	467,884	150,022	142,116	33,553	793,575
2015-16	489,402	128,643	140,598	27,157	785,800
2016-17	511,396	106,295	148,604	20,830	787,125
2017-18	537,823	83,282	152,177	14,143	787,425
2018-19	557,882	59,080	162,118	7,295	786,375
2019-20	370,000	33,975	-	-	403,975
2020-21	<u>385,000</u>	<u>17,325</u>	<u>-</u>	<u>-</u>	<u>402,325</u>
	<u>\$ 7,293,032</u>	<u>\$ 3,262,978</u>	<u>\$ 3,026,968</u>	<u>\$ 1,071,552</u>	<u>\$ 14,654,530</u>

A new bond was issued totaling \$830,000 subsequent to the year ended June 30, 2003.

SPENCER COUNTY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2003

NOTE G--CAPITAL LEASE PAYABLE

The following is an analysis of the leased property under capital lease by class:

<u>Classes of Property</u>	<u>Book Value as of June 30, 2003</u>
Buses	\$ 2,086

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2003:

<u>Year Ending June 30</u>	<u>Capital Lease Payable</u>
2004	\$ 4,665
Less: Amount representing interest	<u>(184)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 4,481</u>

NOTE H--COMMITMENTS

Leases

Commitments under operating lease agreements for office equipment provide for minimum future rental payments as of June 30, 2003 as follows:

<u>Year Ending June 30</u>	
2004	\$ 39,198
2005	23,649
2006	20,448
2007	14,958
2008	<u>3,218</u>
Total minimum payments	<u>\$ 101,471</u>

Rent expense for the year ended June 30, 2003 was \$36,690.

Other

The Board has approved a construction facilities plan for a new middle school designed to house 800 student, grades 6-8, with an estimated completion cost of \$12.5 million.

SPENCER COUNTY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2003

NOTE I--RETIREMENT PLANS

Certified employees are covered under the Kentucky Teachers Retirement System ("KTRS"). Funding for the Plan is provided through payroll withholdings of 9.855% and matching state contributions. The matching contributions are paid by the Federal programs for any salaries paid by that program.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System ("CERS"), a cost sharing, multiple-employer, and public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5% and a district contribution of 6.41% of the employee's total compensation subject to contribution.

The District's total payroll for the year was approximately \$9,180,000. The payroll for employees covered under KTRS was approximately \$6,685,000 and for CERS was approximately \$2,495,000.

The contribution requirement for CERS for the year ended June 30, 2003 was \$282,965, which consisted of \$158,200 from the District and \$124,765 from the employees. The District has no contribution requirement to KTRS.

Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the plan documents.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the plans' status as a whole, derived from actuarial valuations performed as of the dates indicated:

	<u>KTRS</u> <u>June 30, 2002</u>	<u>CERS</u> <u>June 30, 2002</u>
Assets available for benefits, at fair value	\$ 13,588,847,000	\$ 6,883,299,000
Pension benefit obligation	<u>15,695,574,000</u>	<u>5,492,646,000</u>
(Unfunded) overfunded benefit obligation	<u>\$ (2,106,727,000)</u>	<u>\$ 1,390,653,000</u>

Ten-year historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2002 comprehensive annual financial report.

As the Board is only one of several employers participating in the Plan, it is not practicable to determine the Board's portion of the unfunded past service cost or the vested benefits of the Board's portion of the Plan assets.

SPENCER COUNTY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2003

NOTE J--CONTINGENCIES

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the Board for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the Board's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

The Spencer County School District is also subject to other legal proceedings and claims that have risen in the ordinary course of its business and have not been finally adjudicated. Although there can be no assurance as to the ultimate disposition of these matters and the proceedings disclosed above, it is the opinion of the school district's management based upon the information available at this time, that the expected outcome of these matters, individually or in the aggregate, will not have a material adverse effect on the results of operations and financial condition of the Spencer County School District.

NOTE K--INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies that are retrospectively rated which include Workers' Compensation insurance.

NOTE L--RISK MANAGEMENT

The District is exposed to various risk of loss related to injuries to employees. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the district participates in the Kentucky Educational Development Corporation. The district pays an annual premium to the fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminates coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Board's Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

SPENCER COUNTY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2003

NOTE M--DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

General Fund	\$ 400,292
Special Revenue Fund	3,937
SEEK Capital Outlay Fund	3,812
Food Service Fund	45,367

NOTE N--COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. It is management's opinion that the District is in compliance with the COBRA requirements.

NOTE O--TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	Matching	\$ 50,000
Debt Service	SEEK	Debt Service	Debt Service	176,095
Debt Service	FSPK	Debt Service	Debt Service	445,960

NOTE P - ON-BEHALF PAYMENTS

For the year ended June 30, 2003 total payments of \$950,299 were made for life insurance, health insurance, KTRS matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded as unallocated revenue and expense on the statement of activities.

NOTE Q--PRIOR PERIOD ADJUSTMENT

Certain errors, resulting in an understatement of previously reported assets, were discovered during the year. Correction of these errors resulted in an increase of previously reported fund balances as follows:

Understatement of cash and the understatement of Spencer County Elementary School Activity Funds, fund balance at June 30, 2002	<u>\$ 59,427</u>
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Understatement of cash and the understatement of debt service fund balance at June 30, 2002	<u>\$ 25,942</u>
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SUPPLEMENTARY INFORMATION

SPENCER COUNTY BOARD OF EDUCATION**COMBINING BALANCE SHEET--NON-MAJOR GOVERNMENTAL FUNDS**

June 30, 2003

	<u>FSPK Building Fund</u>	<u>Debt Service</u>	<u>Total Non-major Governmental Funds</u>
ASSETS AND RESOURCES			
Assets and Resources			
Cash and cash equivalents	<u>\$ 873,051</u>	<u>\$ 66,043</u>	<u>\$ 939,094</u>
Total Assets and Resources	<u><u>\$ 873,051</u></u>	<u><u>\$ 66,043</u></u>	<u><u>\$ 939,094</u></u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	31	-	31
Fund Balances			
Reserved for:			
Encumbrances	203,370	-	203,370
Unreserved:			
Undesignated, reported in:			
Capital projects funds	669,650	-	669,650
Debt service funds	<u>-</u>	<u>66,043</u>	<u>66,043</u>
Total Fund Balances	<u><u>873,020</u></u>	<u><u>66,043</u></u>	<u><u>939,063</u></u>
Total Liabilities and Fund Balances	<u><u>\$ 873,051</u></u>	<u><u>\$ 66,043</u></u>	<u><u>\$ 939,094</u></u>

See independent auditor's report and accompanying
notes to basic financial statements

SPENCER COUNTY BOARD OF EDUCATION

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES--NON-MAJOR GOVERNMENTAL FUNDS

Year ended June 30, 2003

	SEEK Capital Outlay Fund	FSPK Building Fund	Debt Service	Total Non-Major Governmental Funds
Revenues				
Taxes:				
Property	\$ -	\$ 619,632	\$ -	\$ 619,632
Earnings on investments	-	-	11	11
Intergovernmental – state	<u>200,860</u>	<u>237,539</u>	<u>581,259</u>	<u>1,019,658</u>
Total revenues	200,860	857,171	581,270	1,639,301
Expenditures				
Support services:				
Plant operation and maintenance	28,577	-	-	28,577
Facilities acquisition and construction	-	65,845	-	65,845
Other	<u>-</u>	<u>-</u>	<u>1,353,923</u>	<u>1,353,923</u>
Total expenditures	<u>28,577</u>	<u>65,845</u>	<u>1,353,923</u>	<u>1,448,345</u>
Excess (Deficit) of Revenues Over Expenditures	172,283	791,326	(772,653)	190,956
Other Financing (Uses) Sources				
Operating transfers in	-	-	622,055	622,055
Operating transfers out	<u>(176,095)</u>	<u>(445,960)</u>	<u>-</u>	<u>(622,055)</u>
Total other financing (uses) sources	<u>(176,095)</u>	<u>(445,960)</u>	<u>622,055</u>	<u>-</u>
Net change in fund balances	(3,812)	345,366	(150,598)	190,956
Fund balances, beginning of year, as originally stated	3,812	527,654	190,699	722,165
Prior period adjustment	<u>-</u>	<u>-</u>	<u>25,942</u>	<u>25,942</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 873,020</u>	<u>\$ 66,043</u>	<u>\$ 939,063</u>

See independent auditor's report and accompanying
notes to basic financial statements

SPENCER COUNTY BOARD OF EDUCATION**COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE--ACTIVITY FUNDS**

Year ended June 30, 2003

	<u>High School</u>	<u>Middle School</u>	<u>Elementary School</u>	<u>Total</u>
Assets				
Cash	\$ 119,325	\$ 36,207	\$ 144,684	\$ 300,216
Accounts receivable	3,240	-	-	3,240
Investments	<u>8,129</u>	<u>-</u>	<u>60,616</u>	<u>68,745</u>
Total assets	<u>\$ 130,694</u>	<u>\$ 36,207</u>	<u>\$ 205,300</u>	<u>\$ 372,201</u>
 Liabilities and Fund Balance				
Liabilities				
Accounts payable	<u>7,892</u>	<u>-</u>	<u>-</u>	<u>7,892</u>
	7,892	-	-	7,892
Fund Balance	<u>122,802</u>	<u>36,207</u>	<u>205,300</u>	<u>364,309</u>
Total liabilities and fund balance	<u>\$ 130,694</u>	<u>\$ 36,207</u>	<u>\$ 205,300</u>	<u>\$ 372,201</u>

See independent auditor's report and accompanying
notes to basic financial statements

SPENCER COUNTY BOARD OF EDUCATION**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE--
ACTIVITY FUNDS**

Year ended June 30, 2003

	<u>High School</u>	<u>Middle School</u>	<u>Elementary School</u>	<u>Total</u>
Revenues From Student Activities	\$ 427,098	\$ 202,918	\$ 64,740	\$ 694,756
Non-instructional Expenses	<u>395,271</u>	<u>191,134</u>	<u>49,736</u>	<u>636,141</u>
Excess of Revenues Over Expenditures	31,827	11,784	15,004	58,615
Fund balances, beginning of year, as originally stated	90,975	24,423	130,869	246,267
Prior period adjustment	<u>-</u>	<u>-</u>	<u>59,427</u>	<u>59,427</u>
Fund balances, beginning of year, restated	<u>90,975</u>	<u>24,423</u>	<u>190,296</u>	<u>305,694</u>
Fund Balance, End of Year	<u>\$ 122,802</u>	<u>\$ 36,207</u>	<u>\$ 205,300</u>	<u>\$ 364,309</u>

See independent auditor's report and accompanying
notes to basic financial statements

SPENCER COUNTY BOARD OF EDUCATION

SPENCER COUNTY HIGH SCHOOL ACTIVITY FUND

Year ended June 30, 2003

	<u>Fund balance</u> <u>June 30, 2002</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Interfund</u> <u>Transfers</u>	<u>Fund Balance</u> <u>June 30, 2003</u>
Equipment	\$ 67	\$ -	\$ -	\$ -	\$ 67
Staff Development	217	-	115	-	102
Fees/Dues	-	26,353	-	-	26,353
Teaching Supplies	134	-	-	-	134
Textbooks	392	18,260	16	-	18,636
Visual Performing Arts	422	275	152	(12)	533
Art – High School	1,328	1,480	2,778	-	30
Art – Middle School	43	1,805	1,830	-	18
Band – High School	376	1,624	2,074	100	26
Band boosters	324	4,523	4,749	-	98
Business – High School	-	256	198	-	58
FBLA	-	11,134	10,830	30	334
Chorus – High School	13	30,866	30,557	(100)	222
Computer Lab – Tech	55	-	-	-	55
Speech & Drama	223	-	-	-	223
E.C.E. – High School	249	12	420	400	241
Fam Con Sci – High School	103	4,039	3,223	(161)	758
FCCLA	620	27,265	27,072	1,726	2,539
FCCLA – Region	-	1,666	1,416	(44)	206
Gifted and Talented	3	-	-	-	3
National History Day	-	700	668	361	393
Industrial Technology	-	897	719	(111)	67
TSA	281	3,743	4,116	92	-
Language – High School	365	1,646	1,337	(15)	659
Mathematics – High School	313	180	166	(14)	313
Math Plus	162	-	162	-	-
Media – High School	91	848	690	258	507
Newspaper	238	56	-	-	294
Physical Ed. & Health	-	-	-	-	-
Science – High School	1,113	5,511	6,480	(13)	131
Science AP	20	-	-	(20)	-
Social Studies – High School	-	1,246	1,152	(62)	32
KYA – KUNA	2	2,035	2,037	-	-
Vocational Ag.	8	1,680	2,321	633	-
F.F.A.	6,696	62,722	60,082	(426)	8,910
Greenhouse	2,050	7,150	6,410	(633)	2,157
Yearbook 2000	4,240	9,520	10,476	-	3,284
Library Services	203	226	246	50	233
Future Educators Assoc.	-	1,950	1,307	-	643
National Honor Society	289	695	406	-	578
Spanish	74	1,178	124	-	1,128
Student Council – High School	15	805	778	-	42
Academic team – High School	795	3,360	3,379	(361)	415
Science Club	201	-	-	-	201

Continued

SPENCER COUNTY BOARD OF EDUCATION

SPENCER COUNTY HIGH SCHOOL ACTIVITY FUND--CONTINUED

Year ended June 30, 2003

	Fund balance June 30, 2002	Revenues	Expenditures	Interfund Transfers	Fund Balance June 30, 2003
Bookstore Supplies	\$ 107	\$ 109	\$ 122	\$ -	\$ 94
Pepsi	7,274	9,383	12,025	(1,822)	2,810
Copier (Library)	927	418	946	(50)	349
Hospitality	143	-	143	-	-
Snacks	2,146	694	909	-	1,931
Administration	16	3,961	3,107	86	956
General	597	18	55	-	560
Principal's Fund	8,426	3,818	7,892	-	4,352
Guidance	94	3,377	3,384	-	87
Fund for the Arts	-	540	-	-	540
Class – Senior	3,154	8,763	13,638	6,367	4,646
Class – Senior Trip	-	31,265	24,708	(6,557)	-
Class – Junior	2,023	11,950	11,373	(1,770)	830
Sophomores	253	665	607	(136)	175
Class – Freshman	117	2,743	2,732	(90)	38
Fellow of Christian	384	-	-	-	384
Athletics – High School	2,733	25,478	27,739	266	738
Concessions – High School	11,261	29,485	23,128	(6,300)	11,318
Baseball – High School	6,767	27,316	30,569	504	4,018
Basketball – Boys	1,362	4,597	3,957	(1,179)	823
Basketball – Girls	5,671	6,484	10,820	3,503	4,838
Cheerleaders – High School	1,728	4,595	6,323	1,490	1,490
Cross Country	455	37	629	300	163
Golf – Boys	106	5,041	5,641	494	-
Golf – Girls	294	160	433	106	127
Soccer	2,567	3,525	7,129	1,200	163
Softball	2,590	3,688	6,465	430	243
Tennis – Girls	251	727	1,553	880	305
Volleyball	-	220	758	600	62
F.F.A. – CD	7,804	325	-	-	8,129
Project Graduation	-	2,010	-	-	2,010
Total	<u>\$ 90,975</u>	<u>\$ 427,098</u>	<u>\$ 395,271</u>	<u>\$ -</u>	<u>\$ 122,802</u>

SPENCER COUNTY BOARD OF EDUCATION

SPENCER COUNTY MIDDLE SCHOOL ACTIVITY FUND

Year ended June 30, 2003

	Fund balance June 30, 2002	Revenues	Expenditures	Interfund Transfers	Fund Balance June 30, 2003
6 th Grade Pencil Account	\$ 69	\$ 168	\$ 73	\$ -	\$ 164
6 th Grade Pie Sales	-	5,149	4,495	(134)	520
7 th Grade Water T-shirt	-	715	710	-	5
8 th Grade Avon Sales	853	11,317	11,310	-	860
8 th Grade T-shirt acct	-	956	937	-	19
Academic Boosters	484	488	795	-	177
Academic Travel Acct	-	15,251	15,022	-	229
Admissions MS	403	4,508	4,283	-	628
Art	-	780	214	-	566
Band	702	10,281	7,972	-	3,011
Brown Fundraiser	107	-	-	-	107
Bookstore	261	146	325	-	82
Boston Boosters	-	879	879	-	-
Basketball – Boys	-	2,200	2,200	-	-
Burkhead and Waller Fundraiser	-	3,050	3,050	-	-
Cheerleading	382	1,710	2,041	-	51
Choral Music	451	264	616	-	99
CLC	80	-	-	-	80
Climate Committee	-	895	819	-	76
Concessions	1,936	3,864	4,366	65	1,499
Cox Cooking Class	-	197	137	-	60
Cross Country	-	100	100	-	-
Dance Team	-	2,628	2,494	-	134
DARE	1,377	3,269	2,247	134	2,533
Drama Fundraiser	-	967	827	-	140
ECE MS	11	-	11	-	-
Faculty Coke Account	253	2,796	2,846	-	203
Field Trips	962	17,157	15,822	(3)	2,294
Food and Drinks	1,068	3,542	3,726	(65)	819
Basketball – Girls	20	930	905	-	45
Henderson Tech Fee	-	1,811	1,416	-	395
Interest	3,675	887	330	-	4,232
Intramural	179	3,698	3,446	-	431
Library Donation	506	814	1,011	38	347
Literary Magazine	38	201	106	(35)	98
National History Day	405	3,260	3,152	-	513
Opera Works	-	11	-	-	11
Pictures	3,147	5,188	7,518	-	817
Recycle	301	-	300	-	1
RSVP Survey Money	1,000	-	1,000	-	-
Sarah Hickman Money	20	-	20	-	-
Schoolwide Fundraiser	1,544	75,972	67,472	-	10,044
Science Board	14	306	320	-	-
Science Fee	417	644	598	-	463

Continued

SPENCER COUNTY BOARD OF EDUCATION**SPENCER COUNTY MIDDLE SCHOOL ACTIVITY FUND--CONTINUED**

Year ended June 30, 2003

	<u>Fund balance</u> <u>June 30, 2002</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Interfund</u> <u>Transfers</u>	<u>Fund Balance</u> <u>June 30, 2003</u>
St. Jude Marathon	\$ -	\$ 1,342	\$ 1,342	\$ -	\$ -
Food for the Holidays	111	-	-	(111)	-
Student Council	472	-	-	-	472
T-shirt All – State	-	260	240	-	20
T-shirt Money for Teachers	-	486	486	-	-
Vandalism	1,094	2,859	2,112	-	1,841
Waller Saturday Basketball	-	899	899	-	-
Yearbook	1,832	9,746	9,485	-	2,093
Youth Service Center	<u>249</u>	<u>327</u>	<u>659</u>	<u>111</u>	<u>28</u>
Total	<u>\$ 24,423</u>	<u>\$ 202,918</u>	<u>\$ 191,134</u>	<u>\$ -</u>	<u>\$ 36,207</u>

SPENCER COUNTY BOARD OF EDUCATION

SPENCER COUNTY ELEMENTARY SCHOOL ACTIVITY FUND

Year ended June 30, 2003

	Fund balance June 30, 2002	Revenues	Expenditures	Interfund Transfers	Fund Balance June 30, 2003
A.D.A. Instruction	\$ 530	\$ -	\$ -	\$ (530)	\$ -
Administration	11,260	12,591	11,854	(11,997)	-
Attendance	157	125	87	-	195
Bookstore	2,973	35	-	17	3,025
Brick Fund	6,092	-	-	(6,092)	-
Chorus	198	50	48	-	200
P.E. cokes	8,015	2,961	1,388	3,431	13,019
E.S.S. Snacks	-	791	731	(60)	-
Fall Festival	327	19,738	5,598	(13,970)	497
Family Resource	506	2,942	2,361	(52)	1,035
Field Trip	440	6,413	6,560	52	345
Gifted & Talented	90	14	35	-	69
Grant – Barnet	608	-	-	-	608
Laminating	245	4	109	(140)	-
Library	770	1,020	516	6,231	7,505
Memorial	1,208	-	-	-	1,208
Personnel Fund	777	795	934	-	638
Pictures	45,286	5,732	1,423	(49,595)	-
SBDM	75,489	3,346	1,421	80,398	157,812
P.E. Snacks	2,954	671	164	(3,461)	-
Teacher Accounts	14,354	1,867	11,776	11,724	16,169
Yearbook	2,061	5,645	4,731	-	2,975
Savings	15,293	-	-	(15,293)	-
Interest	663	-	-	(663)	-
Total	<u>\$ 190,296</u>	<u>\$ 64,740</u>	<u>\$ 49,736</u>	<u>\$ -</u>	<u>\$ 205,300</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SPENCER COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2003

Federal Grantor Passed-through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program Or Award Amount	Expenditures
<u>U.S. Department of Agriculture</u>				
Passed through KY Department of Education				
National School Lunch Program	10.555	0575-02-02	N/A	\$ 75,580
National School Lunch Program	10.555	0575-03-02	N/A	169,632
National School Breakfast Program	10.553	0576-02-05	N/A	17,410
National School Breakfast Program	10.558	0576-03-05	N/A	39,290
Summer Meal	10.559	0574-02-23	N/A	5,050
Summer Sponsor Program	10.559	0569-02-24	N/A	<u>520</u>
Total U.S. Department of Agriculture				<u>\$ 307,482</u>
<u>U.S. Department of Education</u>				
Passed through KY Department of Education				
Title I--FY 2002	84.010	0351-02-01	\$ 248,857	\$ 43,405
Title I--FY 2003	84.010	0351-03-01	277,227	222,241
Chapter I Migrant--FY 2002	84.011	0352-02-01	196,941	42,741
Chapter I Migrant--FY 2003	84.011	0352-03-02	214,587	164,834
Title VI Innovative Educ. Strategies--FY 2002	84.298	0533-03-02	13,297	3,584
Title V (A) NCLB Innovative Program 2003	84.298	0553-03-02	14,534	7,234
Idea Basic--FY 2003	84.027	0581-03-02	311,672	308,136
Vocational Education Title IC--FY 1996	84.048	0462-96-32	14,637	4,099
Vocational Education Title IC--FY 2003t	84.048	0462-03-32	18,254	18,254
Idea B-Early Childhood--FY 2003	84.173	0587-03-02	43,027	34,269
Title IV--Drugs and Alcohol--FY 2002	84.186	0590-02-02	9,491	6,925
Title IV--Drugs and Alcohol--FY 2003	84.186	0590-03-02	12,158	1,412
Tech-Prep Education--FY 2003	84.243	5463-03-02	26,000	26,000
Adult Ed-Development Funds--FY 2003	84.002	0535-03-02	10,000	9,950
Tech Literacy Challenge Fund--FY 2001	84.318	0736-01-02	14,847	9,319
Program Res Class Size--FY 2002	84.340	0534-02-01	60,952	222
Title II (A) Teacher & Prin. Training--FY 2003	84.281	0710-03-02	94,384	78,021
Title II Eisenhower Prof. Develop.--FY 2002	84.281	0530-02-03	11,726	11,142
Title II (D) NCLB Technology--FY 2003	84.318	0736-03-02	8,099	8,099
Advanced Placement Summer--FY 2002	84.330	0537-01-01	4,000	700
Adult Education--FY 2002	84.002	0535-02-02	62,632	3,110
Adult Education--FY 2003	84.002	0535-03-02	62,570	<u>60,235</u>
Total U.S. Department of Education				<u>\$ 1,063,932</u>
Total Federal Financial Assistance				<u>\$ 1,371,414</u>

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Spencer County Board of Education
Taylorsville, Kentucky

We have audited the general-purpose financial statements of the Spencer County Board of Education as of and for the year ended June 30, 2003, and have issued our report thereon dated August 28, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Spencer County Board of Education's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance that are required to be reported under *Government Auditing Standards* or state audit requirements.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Spencer County Board of Education's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal controls over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over the financial reporting that we have reported to the management of Spencer County Board of Education in a separate letter dated August 28, 2003.

This report is intended for the information of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Spencer County Board of Education, the Kentucky Department of Education management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Louisville, Kentucky
August 28, 2003

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Spencer County Board of Education
Taylorsville, Kentucky

Compliance

We have audited the compliance of Spencer County Board of Education with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. Spencer County Board of Education's major federal programs are identified in the accompanying schedule of federal financial assistance. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Spencer County Board of Education's management. Our responsibility is to express an opinion on Spencer County Board of Education's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of State and Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Spencer County Board of Education's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Spencer County Board of Education's compliance with those requirements.

In our opinion, Spencer County Board of Education complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items A1-3.

Internal Control Over Compliance

The management of Spencer County Board of Education is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Spencer County Board of Education's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of law, regulations, contract and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operations that we consider to be a material weakness. In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

This report is intended for the information of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Spencer County Board of Education, the Kentucky Department of Education management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Louisville, Kentucky
August 28, 2003

SCHEDULE OF CURRENT YEAR AUDIT FINDINGS

SPENCER COUNTY BOARD OF EDUCATION
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2003

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued (qualified):

Internal control over financial reporting:

- Material weakness(es) identified? _____yes ___X___no
- Reportable condition(s) identified that are not considered to be material weaknesses? ___X___yes _____none reported

Noncompliance material to financial statements noted?

_____yes ___X___no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____yes ___X___no
- Reportable condition(s) identified that are not considered to be material weakness(es)? _____yes ___X___none reported

Type of auditor's report issued on compliance for major programs (unqualified):

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

_____yes ___X___no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.555, 10.553, 10.558, 10.559 84.027	Food Distribution Program Idea Part B

Dollar threshold used to distinguish
Between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee? _____yes ___X___no

Section II - Financial Statement of Findings

No matters were reported

Section III - Federal Award Findings and Questioned Costs

A1-3 During our cash disbursements testing, the district was unable to locate an approved purchase order or invoice for one expenditure selected from our sample.

MANAGEMENT LETTER COMMENTS

MANAGEMENT LETTER

Members of the Board of Education of
Spencer County Board of Education
Taylorsville, Kentucky

In planning and performing our audit of the general-purpose financial statements of Spencer County Board of Education for the year ended June 30, 2003, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the general-purpose financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated August 28, 2003, contains our report on reportable conditions and material weaknesses in the District's internal control structure. This letter does not affect our report dated August 28, 2003, on the financial statements of the Spencer County Board of Education.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various district personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,

Carpenter, Mountjoy & Bressler, PSC
Louisville, Kentucky
August 28, 2003

SPENCER COUNTY BOARD OF EDUCATION

MANAGEMENT LETTER COMMENTS

For the year ended June 30, 2003

Activity Funds - Segregation of Duties

During our audit procedures related to the schools, we noted that the segregation of duties at all of the schools was not being fully utilized. Internal controls are designed to safeguard assets and help to detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties. According to the "Accounting Procedures for Kentucky School Activity Funds" (Redbook) distributed by the Kentucky Department of Education, the following are suggested ways to segregate duties:

Handling Receipts:

- Someone other than the bookkeeper or principal should perform the following duties:
 - Opens the mail with the exception of the bank statements.
 - Records the checks by payee in chronological order.
 - Receives cash and writes pre-numbered receipt for cash to payee.
- The bookkeeper should perform the following duties:
 - Photocopy the checks.
 - Record receipts on a deposit ticket.
 - Record revenue in the school accounting system to agree with the deposit slips.
- The principal should perform the following duties:
 - Reconcile the listing of checks by payee to the deposit ticket.
 - Deposits checks and cash.

Paying Bills:

- The principal should approve invoices.
- The bookkeeper should enter invoices and print checks.
- Someone other than the bookkeeper and principal should match the invoices to the checks and mail the checks.

Preparing Bank Reconciliation:

- The principal should perform the following duties:
 - Open the bank statement.
 - Review canceled checks for appropriate signatures, inconsistent check numbers or abnormal transaction amounts.
 - Compare chronological listing of receipts to deposit slips to deposits on bank statement.
- The bookkeeper should perform the following duties:
 - Sort checks in numerical order and clear them from the school accounting system.
 - Reconcile bank statement to the books using Form F-SA-14.
- Someone other than the bookkeeper or the principal should review the bank reconciliation.

We recommend that each school conduct an evaluation of their policies and procedures related to segregation of duties and compare the results to the suggestions in the Redbook.

Management Response

It is recognized that segregation of duties is sometimes difficult to achieve with so few personnel available. However, each school site has one bookkeeper and two secretaries. The administrators will be asked to review their employees' job descriptions and revise where necessary to provide for segregation of duties.

Continued

SPENCER COUNTY BOARD OF EDUCATION

MANAGEMENT LETTER COMMENTS--CONTINUED

For the year ended June 30, 2003

Activity Funds - Purchasing

During our audit we discovered several instances in which the proper purchasing procedures were not being utilized. Some examples include, payment being rendered on purchases in which a purchase order was not approved prior to the purchase, vendor invoices that did not denote proper approval, vendor invoices that did not denote payment had been rendered and voided checks were recorded as receipts instead of negative expenditures. We recommend that the following Redbook procedures be performed:

- To initiate a purchase, a Purchase Order shall be prepared and approved by the sponsor and principal before the payment is obligated. The purchase order should also be dated.
- Shipping tickets for merchandise ordered shall be compared to the purchase order, initialed and dated by the receiver, and section B of the purchase order completed. We recommend that the shipping ticket be maintained with the purchase order and vendor invoice.
- The vendor invoice and/or the standard invoice must have the date of approval and signature of the principal and the faculty sponsor of the activity expending the monies before the payment process can be continued.
- The check number and date paid shall be noted on the invoice. The invoice shall be clearly marked "paid."
- Voided checks shall be recorded in the account ledgers as negative expenditures, not receipts.

Management Response

The District is currently implementing the processing of purchase orders through the MUNIS system. While purchase orders have always been used, they have not been entered into the accounting system to track encumbrances as they occur.

Activity Funds - Other

During our audit we noted that Spencer County Middle and High Schools' beginning fund balances did not always agree to the prior year ending balance. In order to make sure that all activity is being properly recorded, we recommend that all transfers be recorded in the year they occur and that the beginning fund balances be reconciled to the prior year ending balance on a timely basis.

We also noted that the appropriate forms provided in the Redbook are not being properly utilized. Such forms include the Fund Raiser worksheet from F-SA-2B, the Inventory Control worksheet from F-SA-5, the Transfer Form F-SA-10, and the Annual Financial Report Accounts Receivable and Accounts Payable form F-SA-15B. We recommend that each form be utilized in order for procedures to be in accordance with Redbook.

Management Response

Activity Fund reports will be reviewed by the District finance officer each month.

Redbook forms have been posted on the District's web site in order to provide District employees with access to the appropriate forms for reporting their activities.

Activity Funds - Elementary School

During the year the District discovered that the Elementary School had not recorded investments. These investments totaled \$59,427 at June 30, 2002. We recorded a prior period adjustment in order to properly account for the investments. The Elementary School now includes the total balance of the investments in their reconciliation from cash balance to fund balance.

Continued

SPENCER COUNTY BOARD OF EDUCATION

MANAGEMENT LETTER COMMENTS--CONTINUED

For the year ended June 30, 2003

Management Response

The investments noted have been included on the Elementary School reports, effective May 2003. The response that follows was provided by the principal of the Elementary School. The total balance of the school's investments are being included in the reconciliation from cash balance to fund balance. The Principal is very much aware of previous problems in this area and is working diligently to make sure the proper procedures are followed.

Activity Funds - Middle School

During our audit we noted several departures from Redbook procedures with the Middle School. Some examples include, missing invoices, improper preparation of outstanding check listing, checks containing only one signature, receipt numbers and payees not being listed in the receipt ledger, employee loans not being prohibited, checks not being mailed the same day as signed, and petty cash not being maintained in a secure location. We recommend that the following Redbook procedures be performed:

- Purchase orders and invoices should be maintained for every purchase and filed together.
- All checks that have not cleared the bank in the proper month should be included on the outstanding check listing.
- All checks should be signed by both the principal and the bookkeeper.
- The Multiple Receipt form F-SA-6 should be utilized and each receipt should be recorded in the receipts ledger with a corresponding receipt number and payee.
- Employee loans are prohibited by Redbook and should be strictly enforced.
- All checks should be mailed the same day they are signed.
- Petty cash should be maintained in a secure location (for example: a safe or a locked drawer).

Management Response

The new Middle School bookkeeper has been provided Redbook training and displays a good understanding of the procedures required. Central Office will provide any assistance needed by the new bookkeeper to help in the transition. The responses below were provided by the principal of Spencer County Middle School:

- Purchase orders and invoices are now maintained for every purchase and filed together.
- All checks that have not cleared the bank in the proper month are now included on the outstanding check listing.
- All checks are signed by both the principal and the bookkeeper with a very few exceptions where bank pre-approval was sought because of absence of administrators from the building.
- Multiple Receipt form F-SA-6 is utilized and each receipt is properly recorded.
- There have been no employee loans. However, checks to reimburse staff for authorized expenses have been written and may not have been identified as reimbursement payments. All future reimbursement checks will be appropriately identified. .
- Prompt mailing of checks is now a priority with the bookkeeper.
- The school does not maintain any petty cash.

Continued

SPENCER COUNTY BOARD OF EDUCATION

MANAGEMENT LETTER COMMENTS--CONTINUED

For the year ended June 30, 2003

Activity Funds - High School

During our audit the bank confirmed an account titled "Spencer County High School Project Graduation" with an account balance of \$2,010. This had not been recorded on the High School's books. We recorded the total account balance on the High School's schedule of Activity Funds as of June 30, 2003.

We also noted that tickets were not properly attached to the Requisition and Report of Ticket Sales form F-SA-1. According to Redbook procedures the first and last tickets should be attached to the report.

Management Response

The High School bookkeeper has kept records of the 'Project Graduation' account separate of her Activity Funds. She has now recorded the account per your instructions.

Tickets will be properly placed on the Requisition and Report of Ticket Sales per Mr. DeHoag, principal.

Please note, in all of the above comments, Redbook training was provided to all District employees who have a direct need for the knowledge in July 2003. Another training session is being provided in November 2003 to accommodate those unable to attend in July or just after a refresher for those who choose to attend.

Single Audit - Lunch Program

- Proper internal control procedures dictate that documentation should be maintained for all purchases. We noted one instance during our compliance testing of the Lunch Program in which the purchase order and invoice were unable to be located. We recommend that more control be placed on filing documentation once a purchase has been completed.

Management Response

All invoices will be accounted for. Copies of invoices will be issued when staff request documentation for pricing or reorder to prevent misplacement of original documents.

Disbursements - Payroll

Proper internal control procedures dictate that time cards should be properly approved. During our audit we noted several instances in which time cards did not contain an approval signature. We recommend that the payroll clerk review all time cards for proper approval prior to payment.

Proper internal control procedures also dictate that information relevant to the specified employee be maintained in their personnel files. During our audit we noted several instances in which verification that the employee was a participant in KTRS was not maintained in their personnel files. We recommend that a checklist be created for employee data required by the state to be included in all personnel files. Each file should be reviewed and updated for completeness.

Management Response

All timesheets require proper approval before payment. The payroll clerk will be advised of your comments.

Continued

SPENCER COUNTY BOARD OF EDUCATION

MANAGEMENT LETTER COMMENTS--CONTINUED

For the year ended June 30, 2003

Disbursements - Food Service Fund

During our audit we noted that the food service program director processes invoices, prepares and mails checks. Control over food service disbursements would be improved if all checks were prepared by the central office and if all checks were accompanied with the invoices being paid when presented to the finance officer for approval before mailing.

Management Response

Your recommendations will be implemented with next cycle of payables.